

Scottish Road Works Commissioner

2018/19 Annual Audit Report to the
Scottish Road Works
Commissioner and the Auditor
General for Scotland

September 2019





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1. Key messages





Annual report and accounts audit

We have reported within our independent auditor's report unqualified opinions on the annual accounts, the regularity of transactions and on other prescribed matters. There were no matters which we are required to report by exception.

The annual report and accounts and supporting schedules were of a good standard. Our thanks go to management and staff for their assistance with our work.

Wider scope audit

As outlined in our External Audit Plan, our annual audit work in respect of our wider scope audit responsibilities was restricted to:

- Audit work to allow conclusions to be made on the appropriateness of the disclosures in the Governance Statement; and
- Consideration of the financial sustainability of the organisation and the services that it delivers over the medium and longer term.

Our conclusions and key observations are set out below:



Governance statement

- We satisfied that the Governance Statement has been prepared in accordance with the Transport (Scotland) Act 2005 and directions made by Scottish Ministers and that the content is consistent with the financial statements.
- SRWC has appropriate systems in place to record, process, summarise and report financial and other relevant data. We have not identified any significant weaknesses or governance issues in SRWC's accounting and internal control systems.



Financial sustainability

- SRWC has adequate arrangements in place for long term financial planning. A five-year financial plan has been developed covering the operation of the road works register and the running of SRWC. Assuming a flat rate budget of £375,000, SRWC is forecasting to breakeven across the five-year period by utilising surpluses carried forward.
- The Transport (Scotland) Bill is currently in the final consideration stages. If this legislation is enacted, in its current form, this would have a significant impact on the operation and projected financial position of SRWC. In preparation for this SRWC has undertaken scenario planning. SRWC and Transport Scotland are continuing to monitor the situation as it progresses.

Conclusion

This report concludes our audit for 2018/19. Our work has been performed in accordance with the Audit Scotland Code of Audit Practice, International Standards on Auditing (UK) and Ethical Standards.

Scott-Moncrieff
September 2019



2. Introduction

This report is presented to those charged with governance and the Auditor General for Scotland and concludes our audit of the Scottish Road Works Commissioner for 2018/19.

We carried out our audit in accordance with Audit Scotland’s Code of Audit Practice (May 2016). This report also fulfils the requirements of International Standards on Auditing (UK) 260: Communication with those charged with governance.

We have agreed to designate the Scottish Road Works Commissioner as “those charged with governance”.



Introduction

1. This report summarises the findings from our 2018/19 audit of the Scottish Road Works Commissioner (“SRWC”).
2. We outlined the scope of our audit in our External Audit Plan, which we presented to SRWC at the outset of our audit. The core elements of our work include:
 - an audit of the 2018/19 annual report and accounts and related matters;
 - consideration of SRWC’s arrangements against the audit dimensions within the Code of Audit Practice (Exhibit 1); and
 - any other work requested by Audit Scotland.

Exhibit 1: Audit dimensions within the Code of Audit Practice



3. SRWC is responsible for preparing an annual report and accounts which show a true and fair view and for implementing appropriate internal control systems. The weaknesses or risks identified are only those that have come to our attention during our normal audit work, and may not be all that exist. Communication in this report of matters arising from the audit of the annual report and accounts or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.
4. We would like to thank all management and staff for their co-operation and assistance during our audit.
6. We confirm that we complied with the Financial Reporting Council’s (FRC) Revised Ethical Standard (June 2016). In our professional judgement, the audit process is independent and our objectivity has not been compromised in any way.
7. We set out in Appendix 1 our assessment and confirmation of independence.

Adding value through the audit

5. International Standards on Auditing in the UK (ISAs (UK)) require us to communicate on a timely basis all facts and matters that may have a bearing on our independence.
8. All of our clients demand of us a positive contribution to meeting their ever-changing business needs. Our aim is to add value to SRWC through our external audit work by being constructive and forward looking, by identifying areas of improvement and by recommending and encouraging good practice. In this way, we aim to help SRWC promote improved standards of governance, better management and decision making and more effective use of resources.

Confirmation of independence



Feedback

9. Any comments you may have on the service we provide, the quality of our work and our reports would be greatly appreciated at any time. Comments can be reported directly to the audit team or through our online survey: www.surveymonkey.co.uk/r/S2SPZBX
10. This report is addressed to SRWC and the Auditor General for Scotland and will be published on Audit Scotland's website www.audit-scotland.gov.uk.



3. Annual report and accounts

SRWC's annual report and accounts are the principal means of accounting for the stewardship of its resources and its performance in the use of those resources. In this section we summarise the findings from our audit of the 2018/19 annual report and accounts.



Annual report and accounts

An unqualified audit opinion on the annual report and accounts

We reported unqualified opinions on the annual report and accounts for the year ended 31 March 2019 within our independent auditor's report. We did not identify any significant adjustments to the unaudited annual report and accounts.

SRWC has good administrative processes in place to prepare the annual report and accounts and the required supporting working papers.

Overall conclusion

An unqualified audit opinion on the annual report and accounts

11. The annual report and accounts for the year ended 31 March 2019 were considered and approved by the Commissioner in September 2019. We report within our independent auditor's report:
 - An unqualified opinion on the financial statements;
 - An unqualified opinion on regularity; and
 - An unqualified opinion on other prescribed matters.
12. We are also satisfied that there were no matters which we are required to report by exception.

Good administrative processes were in place

13. We received the unaudited annual report and accounts and supporting papers of a good standard. Our thanks go to staff at SRWC for their assistance with our work.
14. Arrangements are in place to enable the annual report and accounts to be submitted to the Scottish Government and Auditor General for Scotland by the 31 October 2019 deadline.

Our assessment of risks of material misstatement

15. The assessed risks of material misstatement described in Exhibit 2 are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the audit team. Our audit procedures relating to these matters were designed in the context of our audit of the annual report and accounts as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the annual report and accounts is not modified with respect to any of the risks described in Exhibit 2.



Exhibit 2 – Our assessment of risks of material misstatement and how the scope of our audit responded to those risks

1. Management override

In any organisation, there exists a risk that management has the ability to process transactions or make adjustments to the financial records outside the normal financial control processes. Such issues could lead to a material misstatement in the financial statements. This is treated as a presumed risk area in accordance with ISA (UK) 240 - *The auditor's responsibilities relating to fraud in an audit of financial statements*.

Excerpt from the 2018/19 External Audit Plan

16. We have not identified any indications of management override in the year. We have reviewed SRWC's accounting records and obtained evidence to ensure that transactions were valid and accounted for correctly. We have also reviewed management estimates and the journal entries processed in the period and around the year end. We did not identify any areas of bias in key judgements made by management and judgements were consistent with prior years.

2. Revenue recognition

Under ISA (UK) 240- *The auditor's responsibilities relating to fraud in an audit of financial statements* there is a presumed risk of fraud in relation to revenue recognition. The presumption is that SRWC could adopt accounting policies or recognise revenue transactions in such a way as to lead to a material misstatement in the reported financial position.

Excerpt from the 2018/19 External Audit Plan

17. At the planning stage of our audit, we reported that we would rebut the risk of revenue recognition for funding received as Scottish Government grant in aid due to a lack of incentive and opportunity to manipulate transactions. Our assessment of this risk has been reviewed throughout the audit and our conclusion to rebut this risk has remained appropriate.
18. For all non-government revenue streams, we have gained reasonable assurance over the completeness and occurrence of income and we are satisfied that income is fairly stated in the financial statements. We considered the controls in place over revenue accounting and conducted substantive testing on all material non-government revenue streams to confirm that revenue recognition policy is appropriate and consistently applied throughout the year.



3. Risk of fraud in the recognition of expenditure

In 2016, the Public Audit Forum issued Practice Note 10 “The Audit of Public Sector Financial Statements” which applies to the audit of public sector financial statements for periods commencing after June 2016. This Practice Note recognises that most public sector bodies are net spending bodies and notes that there is an increased risk of material misstatement due to improper recognition of expenditure.

Excerpt from the 2018/19 External Audit Plan



19. While we did not suspect incidences of material fraud and error, we evaluated each type of expenditure transaction and documented our conclusions. We have gained reasonable assurance on the completeness and occurrence of expenditure and are satisfied that expenditure is fairly stated in the financial statements. To inform our conclusion, we carried out testing to confirm that SRWC’s policy for recognising expenditure is appropriate and has been applied consistently throughout the year.

Our application of materiality

20. The assessment of what is material is a matter of professional judgement and involves considering both the amount and the nature of the misstatement. This means that different materiality levels will be applied to different elements of the financial statements.
21. Our initial assessment of materiality for the annual accounts was £18,000 and it remained at this level throughout our audit. This equates to approximately 1.5% of SRWC’s 2018/19 gross expenditure. Operating within budget is a key target for SRWC and one of the principal considerations for the users of the financial statements when assessing financial performance.

Performance materiality

22. Performance materiality is the amount set by the auditor for each financial statement area, to reduce to an appropriately low level the probability that collectively any uncorrected and undetected misstatements are less than materiality for the financial statements as a whole.
23. We set a performance (testing) materiality for each area of work which was based on a risk assessment for the area. We perform audit procedures on all transactions and balances that exceed our performance materiality. This means that we are performing a greater level of testing on the areas deemed to be of significant risk of material misstatement. Performance testing thresholds used are set out in the following table:

	Area risk assessment		
	High	Medium	Low
Performance materiality	8,100	9,900	12,600

24. We agreed to report all material corrected misstatements, uncorrected misstatements with a value in excess of 5% of overall materiality and other misstatements below that threshold which, in our view, warranted reporting on qualitative grounds. We would also report on disclosure matters that we identified when assessing the overall presentation of the financial statements.

Audit differences

25. We are pleased to report that there were no material adjustments to the financial statements. We identified some disclosure and presentational adjustments during our audit. These have been reflected in the final set of financial statements.
26. There were no uncorrected misstatements.

Representations

27. We have requested that a signed representation letter be presented to us at the date of signing the annual report and accounts. This letter is to be signed by the Commissioner.

An overview of the scope of our audit

28. The scope of our audit was detailed in our External Audit Plan, which was considered by the Commissioner in February 2019. The plan explained that we follow a risk-based approach to audit planning that reflects our overall assessment of the relevant risks that apply to SRWC. This ensures that our audit focuses on the areas of highest risk.



Planning is a continuous process and our audit plan is subject to review during the course of the audit to take account of developments that arise.

29. At the planning stage we identified the significant risks that had the greatest effect on our audit. Audit procedures were then designed to mitigate these risks.
30. Our standard audit approach is based on performing a review of the key financial systems in place, substantive tests and detailed analytical procedures. Tailored audit procedures, including those designed to address significant risks, were completed by the audit fieldwork team and the results were reviewed by the audit management team. In performing our work we have applied the concept of materiality, which is explained earlier in this report.

Other matters identified during our audit

31. During the course of our audit we noted the following:

Other information in the annual report and accounts

32. “Other information” in the annual report and accounts comprises any information other than the financial statements and our independent auditor’s report thereon. We do not express any form of assurance conclusion on the “other information” except as specifically stated below.

The performance report

33. The performance report provides information on the entity, its main objectives and strategies and the principal risks that it faces. It comprises an overview of the organisation and a detailed summary of how the entity measures performance.
34. We have concluded that the performance report has been prepared in accordance with directions from Scottish Ministers and is consistent with the financial statements.

The accountability report

35. The accountability report is required in order to meet key parliamentary accountability requirements and comprises three sections: a corporate governance report (including the governance statement), a remuneration and staff report, and a parliamentary accountability report.
36. We have obtained sufficient evidence that the information provided in the remuneration and staff

report is in agreement with accounting records and has been prepared in line with ministerial guidance.

37. We have reviewed the annual governance statement and have found that it is consistent with the financial statements and has been prepared in accordance with Scottish Ministers’ guidance. We have provided further detail on our work and findings within the Wider Scope section of our report (section 4).

Regularity

38. We have planned and performed our audit recognising that non-compliance with statute or regulations may materially impact on the annual report and accounts. We did not identify any instances of irregular activity.

Follow up of prior year recommendations

39. As part of our audit we have followed up the agreed audit recommendations from prior years which were yet to be implemented. Detail on these recommendations is included in the action plan at Appendix 2.

Looking forward – IFRS 16 Leases

40. IFRS 16 Leases will be effective from 1 April 2020. IFRS 16 Leases will lead to a substantial change in accounting practice for lessees where the current distinction between operating and finance leases will be removed. Instead, it requires that a lessee recognises assets and liabilities for all leases with a term of more than 12 months unless the underlying asset is of low value. A lessee will recognise a right-of-use asset representing its right to use the underlying leased property, and a lease liability representing the lessee’s obligation to pay for that right.
41. There are new requirements for measurement of the lease liability where it will initially be measured at the present value of the lease payments payable over the lease term but may rise to reflect any reassessment or lease modifications, or revised lease payments.
42. This will be a key area of focus for our 2019/20 audit.



Qualitative aspects of accounting practices and financial reporting

43. During the course of our audit, we consider the qualitative aspects of the financial reporting

process, including items that have a significant impact on the relevance, reliability, comparability, understandability and materiality of the information provided by the annual accounts. The following observations have been made:

Qualitative aspect considered	Audit conclusion
The appropriateness of the accounting policies used.	We consider the accounting policies, which are disclosed in the financial statements, to be appropriate and in line with the Government Financial Reporting Manual.
The timing of the transactions and the period in which they are recorded.	We did not identify any concerns over the timing of transactions or the period in which they were recognised.
The appropriateness of the accounting estimates and judgements used.	We are satisfied with the appropriateness of other accounting estimates and judgements used in the preparation of the financial statements.
The appropriateness of the going concern assumption	We have reviewed the detailed financial forecasts for 2019/20. Our understanding of the legislative framework and activities undertaken provides us with sufficient assurance that SRWC will continue to operate for at least 12 months from the signing date.
The potential effect on the annual accounts of any uncertainties, including significant risks and related disclosures that are required.	We have not identified any uncertainties, including any significant risk or required disclosures, which should be included in the annual accounts.
The extent to which the annual accounts have been affected by unusual transactions during the period and the extent that these transactions are separately disclosed.	From the testing performed, we identified no significant unusual transactions in the period.
Apparent misstatements in the annual report or material inconsistencies with the accounts.	The annual report contains no material misstatements or inconsistencies with the financial statements.
Any significant annual accounts disclosures to bring to your attention.	There are no significant financial statement disclosures that we consider should be brought to your attention. All the disclosures required by relevant legislation and applicable accounting standards have been made appropriately.
Disagreement over any accounting treatment or annual accounts disclosure.	While disclosure and presentational adjustments were made during the audit process there was no material disagreement during the course of the audit over any accounting treatment or disclosure.
Difficulties encountered in the audit.	There were no significant difficulties encountered during the audit.

4. Wider scope

Following consideration of the size, nature and risks of SRWC, the application of the full wider scope audit is judged by us not to be appropriate. Our annual audit work on the wider scope has therefore been restricted to:

- **Audit work to allow conclusions to be made on the appropriateness of the disclosures in the governance statement; and**
 - **Consideration of the financial sustainability of the organisation and the services that it delivers over the medium and longer term.**
-

Wider scope conclusions

Governance statement



We are satisfied that the Governance Statement has been prepared in accordance with the Transport (Scotland) Act 2005 and directions made by Scottish Ministers and that the content is consistent with the financial statements.

SRWC has appropriate systems in place to record, process, summarise and report financial and other relevant data. We have not identified any significant weaknesses or governance issues in SRWC's accounting and internal control systems.

Financial sustainability



SRWC has adequate arrangements in place for long term financial planning. A five-year financial plan has been developed covering the operation of the road works register and the running of SRWC. Assuming a flat rate budget of £375,000, SRWC is forecasting to breakeven across the five-year period by utilising surpluses carried forward.

The Transport (Scotland) Bill is currently in the final consideration stages. If this legislation is enacted, in its current form, this would have a significant impact on the operation and projected financial position of SRWC. In preparation for this SRWC has undertaken scenario planning. SRWC and Transport Scotland are continuing to monitor the situation as it progresses.

Our approach to the wider scope audit

44. Our approach to the wider scope audit (as set out in our 2018/19 External Audit Plan) builds upon our understanding of SRWC which we developed from previous years, along with discussions with management and review of minutes and key strategy documents.

45. During our audit we also considered the following risk areas as they relate to SRWC:

- EU withdrawal
- Changing landscape of public financial management
- Dependency on key suppliers
- Openness and transparency

Overall we concluded that SRWC has appropriate arrangements in place in respect of these areas as noted below:

Impact of EU withdrawal

SRWC was prepared for leaving on the original due date of 29 March 2019 and has been able to demonstrate consideration of all key risk areas. This includes a review of the workforce, relevant legislation and current dealings with the EU.

Given its small workforce, regulatory role and minimal dealings with the EU, SRWC deem the impact of EU withdrawal to be limited and a low risk to the organisation.

Changing landscape of financial management

The Scottish Government's five-year outlook for the Scottish budget as set out in the Medium Term Financial Strategy provides useful context for financial planning. The new budget process places greater emphasis on assessing outcomes and the impact of spending.

The Transport (Scotland) Bill is continuing to progress through Parliament and is likely to have significant impact on the financial position of the organisation. SRWC is in regular communication with Transport Scotland to monitor progress and ensure this is appropriately reflected in its financial plans.

Dependency on key suppliers

One of the sector risks identified by Audit Scotland for 2018/19 relates to public sector organisations reliance on key suppliers. Following the collapse of Carillion, it became apparent that public sector bodies face significant risks where key suppliers are experiencing difficult trading conditions.

SRWC incurs significant spend with one key supplier for the provision of the Scottish Road Works Register (£748,000 in 2018/19). This contract was retendered in 2017/18 and awarded to the existing supplier. Financial due diligence was completed in line with procurement legislation and did not identify any issues.

Given the operational importance of the register, SRWC deem the financial failure of the supplier to be a key risk, as highlighted in the Governance Statement, and are managing this through its risk management arrangements. Contingency plans have been developed to manage the event of total loss, including an emergency tender process to find a new supplier.

Openness and transparency

There is an increasing focus on how public money is used and what is achieved. In that regard, openness and transparency supports understanding and scrutiny.

We consider SRWC to exhibit good practice with respect to openness and transparency arrangements through the following;

- Key publications including the annual report and accounts, corporate plan and business plan are available on SRWC's website;
- An up to date register of interests is available on SRWC's website for the Commissioner; and
- Regular communication with stakeholders, including the publication of news stories on SRWC's website.



Governance statement

Our audit opinion considers whether the Governance Statement has been prepared in accordance with the Transport (Scotland) Act 2005 and

directions made by Scottish Ministers and is consistent with the financial statements.

46. We are satisfied that the Governance Statement for the year to 31 March 2019 is consistent with the financial statements and has been prepared in accordance with the Transport (Scotland) Act 2005 and directions made by Scottish Ministers.
47. The Commissioner has confirmed that in their opinion, the control arrangements are appropriate and effective and no significant issues have been identified.
48. From our audit work performed we concluded that SRWC has appropriate systems in place to record, process, summarise and report financial and other relevant data. We have not identified any significant weaknesses or governance issues in SRWC's accounting and internal control systems.

49. SRWC receives internal audit services from Transport Scotland. An annual assessment is carried out (applying a risk based approach) to determine the scope/coverage of internal audit work. As such internal audit does not necessarily carry out audit work every year. The last review was carried out in 2015/16.

50. In our 2017/18 annual report on the audit we recommended that SRWC is sufficiently engaged with Internal Audit to ensure the programme of work is effectively planned. We can confirm that the Commissioner was involved in the development of the 2019/20 internal audit plan. Written confirmation was provided by Internal Audit that SRWC had been considered during the risk-based planning process and that SRWC was not assessed as needing any internal audit coverage in 2019/20.



Financial sustainability

Financial sustainability looks forward to the medium and longer term to consider whether SRWC is planning effectively to continue to deliver its services or the way in which they should be delivered.

Significant audit risk

51. Our audit plan identified a significant risk in relation to financial sustainability under our wider scope responsibilities.

Financial sustainability

SRWC has a five year budget in place which has been approved by the Commissioner. As identified in our 2017/18 Annual Audit Report, this identified a funding shortfall in 2022/23 with no consideration of how it will be met while maintaining the required level of service. SRWC has reviewed these budgets, identified operational savings and is now forecasting a breakeven position against a flat budget for each of these years. Public sector bodies are coming under strain in the short and long term due to the increasing uncertainty and complexity of the Scottish Government budgeting process.

In addition, the on-going development of the Transport (Scotland) Bill results in an additional level of uncertainty as this has the potential to alter the scope and nature of SRWC's operation. The impact of this cannot currently be reflected in its long-term financial plans.

Excerpt from the 2018/19 External Audit Plan

52. SRWC has adequate arrangements in place for long term financial planning. A five-year financial plan has been developed covering the operation of the road works register and the running of SRWC.
53. In our 2017/18 Annual Audit Report we noted that the five-year financial plan indicated a funding shortfall in the final year but did not identify a plan for how this will be met. The budget has been revised in 2018/19 and operational savings have been identified. Assuming a flat rate budget of £375,000, SRWC is forecasting to breakeven across the five-year period by utilising surpluses carried forward.
54. The Transport (Scotland) Bill completed Stage 2 of the Parliamentary Process, the amendment stage, on 26 June 2019. As yet, there is no date set for Stage 3, the final consideration stage, to commence. Within the Bill, there is a number of proposed changes to the function of SRWC, the main one being the introduction of an inspection function within SRWC.
55. If the proposed changes to legislation are enacted this would have a significant impact on SRWC's financial projections. In preparation for this, SRWC has budgeted for four different scenarios, calculating the average annual cost for these proposed changes.
56. These forecasts have been presented to Transport Scotland for consideration. SRWC is continuing to monitor the situation to enable it to effectively plan for any changes and minimise the impact on the financial sustainability of the organisation. We will continue to monitor the development of the Transport (Scotland) Bill and SRWC's response to this during our 2019/20 audit.

Indicative 2019/20 budgets

57. Grant in aid funding has been agreed as £375,000 for 2019/20. SRWC are planning on utilising its surplus carried forward to enable them to continue to operate within this allocation, with budgeted expenditure of £407,000.
58. Prescribed Fees are set within legislation and are collected to fund the operation of the road works register. Budgeted income for 2019/20 is £855,000, £108,000 increase from 2018/19. Similarly, SRWC plan to utilise surplus carried forward to offset the budgeted deficit of £25,544.

SRWC's financial performance in 2018/19

59. The main financial objective for SRWC is to ensure the financial outturn for the year is within the budget allocated by Transport Scotland. The agreed grant in aid for 2018/19 was £431,000, resulting in a surplus of £44,000. Therefore, SRWC met its financial objective for the year.
60. The register is funded by the road works community, predominantly through prescribed fees. These were set at a lower level in 2018/19 to mirror the reduced cost of operating the register following the contract retendering exercise. Overall, SRWR reported a net deficit of £24,000 which was met through the surplus carried forward from 2017/18.
61. SRWC spent £363,000 on direct costs associated with the running of organisation. This resulted in an overall net expenditure position of £387,000.

5. Appendices

Appendix 1: Respective responsibilities of SRWC and the Auditor

Responsibility for the preparation of the annual report and accounts

It is the responsibility of the Commissioner, as Accountable Officer, to prepare financial statements in accordance with the Government Financial Reporting Manual (FRoM) issued by HM Treasury and the accounts directions issued by Scottish Minister under section 19(4) of the Public Finance and Accountability (Scotland) Act 2000.

In preparing the annual report and accounts, the Commissioner, as Accountable Officer is required to:

- apply on a consistent basis the accounting policies and standards;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards as set out in the Financial Reporting Manual have not been followed where the effect of the departure is material;
- prepare the accounts on a going concern basis unless it is inappropriate to presume that SRWC will continue to operate; and
- ensure the regularity of expenditure and income.

The Commissioner is also responsible for:

- keeping proper accounting records which are up to date; and
- taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditor responsibilities

We audit the annual report and accounts and give an opinion on whether:

- they give a true and fair view in accordance with the Transport (Scotland) Act 2005 and directions made thereunder by the Scottish Ministers of the state of SRWC's affairs as at 31 March 2019 and of its net expenditure for the year then ended;
- they have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2018/19 FRoM ;
- they have been prepared in accordance with the requirements of the Transport (Scotland) Act 2005 and directions made thereunder by the Scottish Ministers;
- in all material respects the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers;
- the auditable part of the Remuneration and Staff Report has been properly prepared in accordance with the Transport (Scotland) Act 2005 and directions made thereunder by the Scottish Ministers; and
- the information given in the Performance Report for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Transport (Scotland) Act 2005 and directions made thereunder by the Scottish Ministers; and
- the information given in the Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Transport (Scotland) Act 2005 and directions made thereunder by the Scottish Ministers.

We are also required to report, if in our opinion:

- adequate accounting records have not been kept; or
- the financial statements and the part of the Remuneration and Staff Report to be audited are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

Wider scope of audit

The special accountabilities that attach to the conduct of public business, and the use of public money, mean that public sector audits must be planned and undertaken from a wider perspective than in the private sector. This means providing assurance, not only on the financial statements, but providing audit judgements and conclusions on the appropriateness, effectiveness and impact of corporate governance and performance management arrangements and financial sustainability.

The Code of Audit Practice frames a significant part of our wider scope responsibilities in terms of four audit dimensions: financial sustainability; financial management; governance and transparency; and value for money.

We have concluded that the full application is not appropriate due to the size of the organisation. As part of our annual audit we consider and report against:

- appropriateness of the disclosures in the governance statement; and
- financial sustainability of the body and the services that it delivers over the medium to longer term.

Independence

International Standard on Auditing (UK) 260 "Communication with those charged with governance" requires us to communicate on a timely basis all facts and matters that may have a bearing on our independence.

Confirmation of independence

We confirm that we have complied with the FRC's Revised Ethical Standard (June 2016). In our professional judgement, the audit process is independent and our objectivity has not been compromised in any way. In particular there are and have been no relationships between Scott-Moncrieff, the Commissioner or senior management that may reasonably be thought to bear on our objectivity and independence.

Appendix 2: Follow up of prior year recommendations

Of the two recommendations raised within our previous annual audit reports and which had yet to be implemented, we noted that one has been implemented and the target completion date for the other has not yet passed. Details are given below.

1. Shortfall in funding

Initial rating	Issue & recommendation	Management comments
Grade 4	<p>Issue</p> <p>In 2017/18 SRWC developed a long term budget, which identified a shortfall of funds in the year 2022/23. At present there is no plan for how SRWC will continue to operate within the current grant-in-aid levels.</p> <p>Risk</p> <p>There is a risk that the level and quality of service delivery is not maintained due to lack of planning to bridge the budget gap.</p> <p>Recommendation</p> <p>SRWC should consider how the shortfall can be met, while maintaining the required service levels.</p>	<p>Budget projections demonstrate that the office can operate on a going concern basis at current grant-in-aid levels for a period of 4 years. However, from year 5 onwards, an increasing deficit will accrue if no action is taken. This has been highlighted to the office SG sponsor who has confirmed that currently no provision exists for any growth in the level of grant-in-aid across all sectors.</p> <p>In parallel, the ongoing Transport (Scotland) Bill process is progressing which will likely impact on the functions and duties of the office, requiring a fundamental review of the level of grant-in-aid.</p> <p>The Bill process is likely to receive Royal Assent and be enacted towards the end of 2019 leaving around 2 ½ years to renegotiate the office finances.</p> <p>Should no additional funding be made available for 2020/21, the following actions will be taken:</p> <ul style="list-style-type: none"> • 5 year budget projections will be reviewed to identify operational savings. • Office staffing levels will be reviewed. • SRWC / SRWR budgets will be scrutinised in granular detail to identify functions which can be transferred from the SRWC budget to the SRWR budget and hence be funded through Prescribed Fee and Amounts collected annually. <p>Responsible officer: Scottish Road Works Commissioner</p> <p>Implementation date: 1 April 2020</p>
Current status	Audit update	Management response
Action not yet due for completion	<p>The financial plan has been updated in 2018/19 and operational savings have been identified to ensure SRWC achieve a breakeven position.</p> <p>However, as the Transport (Scotland) Bill is progressing, SRWC is continuing to re-forecast projections to take account of potential outcomes.</p> <p>We will continue to monitor the situations as part of our 2019/20 audit.</p>	<p>N/A</p> <p>Responsible officer: Scottish Road Works Commissioner</p> <p>Implementation date: 1 April 2020</p>

2. Source of assurance for the governance statement

Initial rating	Issue & recommendation	Management comments
Grade 3	<p>Issue</p> <p>Transport Scotland confirmed that SRWC will be covered by the Transport Scotland Internal Audit Plan on a risk based approach. The Framework Agreement with the sponsor body has been updated to reflect this. Internal audit will therefore be provided on an ad hoc basis rather than annually.</p> <p>Whilst we consider this arrangement appropriate, SRWC has not been sufficiently included in the planning process.</p> <p>Recommendation</p> <p>SRWC should ensure they are sufficiently engaged with Transport Scotland and Scottish Government Internal Audit to ensure the programme of work is effectively planned.</p>	<p>2016/17 management comments</p> <p>Agree a 3 to 5 year internal review plan with Transport Scotland. Policy to be agreed by the end of January 2018.</p> <p>2017/18 management comments</p> <p>SRWC to liaise directly with Transport Scotland to ensure that the office is involved in the Internal Audit Planning process.</p> <p>Action owner: Scottish Road Works Commissioner</p> <p>Due Date: 31 December 2018</p>
Current status	Audit update	Management response
Complete	<p>We confirmed the Commissioner was involved in the development of the 2019/20 internal audit plan. Written confirmation was provided by Internal Audit that SRWC had been considered during the risk-based internal audit planning process and concluded that SRWC did not require any internal audit coverage in 2019/20.</p>	N/A

